

Message Text

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R 141534Z OCT 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 5538

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 15749

NODIS/CHEROKEE

FOR SECRETARY KISSINGER AND TREASURY SECRETARY SIMON

E.O. 11652: XEDS-1

TAGS: EFIN, UI

SUBJECT: UNDEP SECRETARY YEO'S REPORT ON CONVERSATIONS
WITH GERMANS

OUR DISCUSSIONS WITH POEHL WERE QUITE PLEASANT AND FRANK.
THEY CENTERED ON THE FOLLOWING POINTS:

1. POEHL INDICATED THAT HE EXPECTED GISCARD TO MAKE A
PRESENTATION ON EXCHANGE RATES. THEY ANTICIPATE THAT IT
WILL COVER FAMILIAR TERRITORY, DESCRIBING RECENT EXCHANGE
RATE FLUCTUATIONS, ATTRIBUTING THE CURRENT ECONOMIC
STAGNATION TO EXCHANGE RATE VARIABILITY AND CALLING FOR
ESTABLISHMENT OF BANDS OR ZONES WITHIN WHICH RATES SHOULD
BE KEPT.

2. THIS VIEW OF THE FRENCH POSITION AS INSISTING ON
ZONES WAS IN NO WAY CONGRUENT WITH THE TONE OR SPECIFICS
OF OUR CONVERSATIONS IN PARIS WITH DE LAROSIERE OR
CLAPPIER.

3. INTERESTINGLY, POEHL INDICATED THAT THEY THOUGHT AN
APPROPRIATE ZONE WITH THE DM WOULD BE 2.50 TO 2.70. THIS
COMPARES WITH THE FIGURES OF 2.40 TO 2.60 MENTIONED BY
EMMINGER IN A SPEECH SEVERAL WEEKS AGO.

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4. EITHER THE GERMANS ARE NOT AWARE OF THE CURRENT FRENCH

POSITION AS DESCRIBED BY DE LAROSIERE OR THEY THEMSELVES
ARE PUSHING FMR ZONES BY USING THE FRENCH.

5. POEHL APOLOGIZED FOR THEIR PERFORMANCE IN RE THE
SDR/AID LINK AT THE U.N. HE EXPLAINED THAT THE CHANCEL-
LOR, CONFRONTED LATE AT NIGHT BY THE URGINGS OF GENSCHER
AND BAHR, HAD MADE THE DECISION TO WITHDRAW THEIR RESERVA-
TION ON THE LINK. FOLLOWING THE U.N. AFFAIR, THE CHANCEL-
LOR HAD BEEN CRITICIZED IN THE PRESS FOR ACQUIESCING TO
THE LINK. AS A RESULT HE ISSUED AN INTERPRETATION OF
THEIR POSITION WHICH IN SUBSTANCE STATED THAT THEY ARE
STILL OPPOSED TO THE LINK.

6. WE AGREED THAT THE LINK WOULD DESTROY THE SDR AS
ORIGINALLY CONCEIVED. FURTHERMORE, THE LINK LACKED ANY
SEMBLANCE OF A CONDITIONALITY, ANY CONSULTATION WITH A VIEW
TO IMPROVING INDIVIDUAL COUNTRIES ECONOMIC PERFORMANCE
AND ANY POLITICAL QUID PRO QUO. WE SUGGESTED THAT THE
PRIVATE BANKING SYSTEMS ABILITY TO CONTINUE TO FINANCE
THAT PART OF THE LDCS DEFICITS WHICH COULD BE DESCRIBED
AS STRUCTURAL IS LIMITED. THE HEAVY DEBT BURDENS OF MANY
LDCS PLUS THE BANKING SYSTEMS OWN LIMITATIONS SUGGEST THAT
THE FLOW OF PRIVATE CREDIT MIGHT STAGNATE OR DECLINE SOME-
WHAT. IMPROVED WORLD ECONOMIC CONDITIONS MIGHT MITIGATE
THE LDCS EARNING PROBLEMS BUT TO THE DEGREE INDIVIDUAL
LDCS HAVE STRUCTURAL CONCERNS THE POSITIVE EFFECT WOULD
BE ONLY PARTIAL.

7. IT IS CLEAR THAT POEHL AND PERHAPS OTHERS IN THE GER-
MAN GOVERNMENT ARE CONCERNED ABOUT THE LIQUIDITY ISSUE.
WE INDICATED THAT THE VERY SIZEABLE AMOUNT OF SHORT-TERM

ECONOMIC EXPANSION IN RECENT YEARS SHOULD NOT BE CONFUSED
WITH INTERNATIONAL LIQUIDITY. EXISTENCE OF HUGE CAPITAL
FLOWS IS NOT A SYMPTOM OF TOO MUCH LIQUIDITY OR TOO
LITTLE. WE INDICATED THAT OUR OWN CONCERN CENTERED ON
THE DISTRIBUTION OF OFFICIAL LIQUIDITY AND THE RELATED
FUNDAMENTAL ISSUE OF INDIVIDUAL COUNTRIES COMPARATIVE
EARNING POWER.

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8. POEHL INDICATED HE PERSONALLY FEARED AN ATTEMPT BY
THE BRITISH AND ITALIANS IN CONJUNCTION WITH THE LDCS TO
TRY FOR A NEW ISSUE OF SDRS.

9. WE AGREED THIS WOULD BE UNDESIRABLE IN THE SENSE THAT
IT WOULD REPRESENT AN ATTEMPT TO FLOAT EVERYONE OFF THE
ROCKS WITHOUT ADDRESSING UNDERLYING PROBLEMS. WE INDICA-

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C O N F I D E N T I A L SECTION 02 OF 02 LONDON 15749

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TED AT SOME POINT INDIVIDUAL COUNTRIES' STANDARDS OF LIVING MUST BE RELATED TO THEIR EARNING CAPACITIES. EXPANSION OF SDPS WOULD IN EFFECT TRANSFER INCOME FROM HEALTHY DEVELOPED COUNTRIES TO OTHERS. THE MECHANISM WOULD BE THROUGH THE PROCESS OF INFLATION ENGENDERED BY THE BROAD ISSUANCE OF SDRS AND THIS IN TURN WOULD CRIPPLE OUR INDIVIDUAL EFFORTS TO BRING ABOUT PRICE STABILITY.

10. WE INDICATED THAT GERMANY'S ABILITY TO OPERATE AS AN ISLAND OF PRICE STABILITY IN THE FUTURE WOULD BE LIMITED BY OTHER COUNTRIES' ADOPTION OF INDIVIDUAL PRICE STABILIZATION PROGRAMS AND IN ANY CASE MEANT THAT GERMANY WOULD HAVE TO ACCEPT SUCH LOW REAL RATES OF GROWTH THAT THEY WOULD HAVE IN EFFECT EMBRACED A POLICY OF ENGINEERED STAGNATION.

11. WE DISCUSSED THE NEW YORK CITY PROBLEM AND GAVE THEM A FULL REVIEW OF THE SITUATION. IT WAS APPARENT THAT THEY WERE NOT FAMILIAR WITH MANY OF THE PIVOTAL FACTORS IN RE THE OVERALL ISSUE.

12. WE DISCUSSED THE CHAIRMANSHIP OF THE INTERIM COMMITTEE. POHL SAID HE FAVORED DUSENBERG. IMPARTIALITY AND A STEADY AND EVEN HAND WERE THE MOST IMPORTANT CRITERIA TO US AND WE INDICATED SOME RESERVATIONS RE DUSENBERG. POEHL THEN MENTIONED HEALEY AND DECLERQ AND WE INDICATED BOTH WERE ON OUR LIST BUT WE WERE NOT PREPARED AS OF THAT

MOMENT TO PUT FORWARD A NAME.

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